



Highlights of [GAO-04-779](#), a report to the Honorable Richard J. Durbin and the Honorable Tom Harkin, U.S. Senate; and the Honorable Peter A. DeFazio and the Honorable Carolyn B. Maloney, House of Representatives.

Why GAO Did This Study

GAO has reported in a number of products that the lack of control over inventory shipments increases vulnerability to undetected loss or theft and substantially increases the risk that million of dollars can be spent unnecessarily. This report evaluates the Navy's and its repair contractors' adherence to Department of Defense (DOD) and Navy inventory management control procedures for government-furnished material shipped to Navy repair contractors. Government-furnished material includes assemblies, parts, and other items that are provided to contractors to support repairs, alterations, and modifications. Generally, this material is incorporated into or attached onto deliverable end items, such as aircraft, or consumed or expended in performing a contract.

What GAO Recommends

GAO recommends that the Navy require its repair contractors to acknowledge receipt of government-furnished material, follow up on unconfirmed material receipts within the established 45 days, and implement procedures to ensure that quarterly reports of government-furnished material shipped to repair contractors are generated and distributed to the Defense Contract Management Agency. DOD concurred with GAO's recommendations and provided estimated timelines for implementation of each of the recommendations.

www.gao.gov/cgi-bin/getrpt?GAO-04-779.

To view the full product, including the scope and methodology, click on the link above. For more information, contact William M. Solis at (202) 512-8412 or solisw@gao.gov.

DEFENSE INVENTORY

Navy Needs to Improve the Management Over Government-Furnished Material Shipped to Its Repair Contractors

What GAO Found

The Naval Inventory Control Point and its repair contractors have not followed DOD and Navy inventory management control procedures intended to provide accountability for and visibility of shipped government-furnished material to Navy repair contractors. As a result, Navy inventory worth millions of dollars is vulnerable to fraud, waste, or abuse. First, Navy repair contractors are not acknowledging receipt of government-furnished material from the Navy's supply system. Although a DOD procedure states that contractors will notify the military services' inventory control points once material is received, Naval Inventory Control Point officials are not requiring its repair contractors to do so. Consequently, the Naval Inventory Control Point is not adhering to another DOD procedure that requires the military services to follow up with repair contractors within 45 days when the receipts for items are not confirmed. Naval Inventory Control Point officials stated that receipting for government-furnished material, which is earmarked for immediate consumption in the repair of another item, might overstate the inventory levels in their inventory management system. Without material receipt notification, the Naval Inventory Control Point cannot be assured that its repair contractors have received the material. For fiscal year 2002, the most recent and complete data available at the time of GAO's review, the Naval Inventory Control Point reported that 4,229 government-furnished material shipments (representing 4,301 items value at approximately \$115 million) had been shipped to its repair contractors. GAO randomly selected and examined 308 government-furnished material shipments, representing 344 items that were shipped to the Navy's repair contractors. Based on this random sample, GAO estimated that 50 unclassified items may be unaccounted for, with a value of about \$729,000 in aircraft-related government-furnished material.

Additionally, the Naval Inventory Control Point does not send quarterly reports on the status of government-furnished material shipped to its repair contractors to the Defense Contract Management Agency. DOD and Navy procedures require that the Naval Inventory Control Point generate and distribute quarterly reports on government-furnished material shipped to repair contractors, including information on total shipments and their dollar value, number of shipments for which receipts are unknown, and rejected requisitions to the Defense Contract Management Agency. Although there are a number of DOD and Navy procedures that outline this reporting requirement, the Naval Inventory Control Point officials responsible for implementing this procedure were unaware of the requirement. The Naval Inventory Control Point lacks procedures to ensure that these reports are generated and distributed to the Defense Contract Management Agency. Without the reports, the Defense Contract Management Agency may be unable to independently verify that the Navy repair contractors have accounted for all government-furnished material shipped to them.